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**THE NEW SOVIET POLITICAL LANDSCAPE:
IMPLICATIONS FOR ECONOMIC AID POLICY**

Arnold L. Horelick

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THE NEW SOVIET POLITICAL LANDSCAPE: IMPLICATIONS FOR ECONOMIC AID POLICY

Arnold L.Horelick¹

Testimony Before The Senate Foreign Relations Committee
September 26, 1991

I welcome the opportunity provided by this hearing to share my views with you on recent revolutionary changes in what we now call the Former Soviet Union (FSU) and the implications of these changes for U.S. economic assistance policy.

The Soviet political landscape has changed radically since the Soviet aid debate on the eve of the London G-7 meeting in July. An authoritarian coup to turn back the clock has been decisively rebuffed by democratic forces in Russia. Communist Party rule at the center and in most parts of the European USSR has been ended, and the party itself is essentially defunct. The last vestiges of the imperial system and of its expansionist foreign policy are being dismantled. Ideological obstacles to democratic political transformation and marketizing economic reform have been largely torn down.

With respect to the economic assistance issues being addressed today, these political changes have affected the situation in a way that transforms the policy calculus: fear that well-intentioned Western assistance could inadvertently strengthen the hand of reactionary political forces who dominated the old union government is no longer a salient consideration. The all-union government that would have been our partner in such an assistance program last summer consisted precisely of those reactionary forces who staged the abortive August 19 coup. By contrast, to the extent that there are now people in charge at all in Moscow—in the transitional “union” and RSFSR governments—they are the “good guys,” leaders with the best democratic credentials that any in the country have to offer.

But concern about how to ensure the effectiveness of Western assistance remains a serious and in some ways even more difficult consideration, despite the much clearer democratic orientation of now dominant Russian political forces. This is because of radical uncertainty about the most fundamental questions concerning the very

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configuration and composition of the political entity to which our assistance would be directed, as well as about the character of the economic relationships among its component parts. How can we make sensible decisions about "macroeconomic stabilization" assistance when we don't know—and our partners in the FSU don't know—who and what is to be included in the "macro?"

To the extent that it is being governed at all, the "union" today is being governed by institutions that are explicitly intended to be only temporary stop-gaps while its permanent configuration is being decided in dynamic, in some cases strife-torn, political processes internal to each republic and in negotiations at the "center" among their fractious representatives.

At this stage neither we nor they know what political entity or set of entities will finally emerge from these uncertain and highly charged processes. It was already clear long before the coup attempt that it would not be a unitary state of the old type. Now it seems almost as clear that it won't be a federal structure at all. The most cohesive plausible entity now would be a confederation of some sort, constructed from the bottom-up rather than from the top-down; but looser, less coherent forms of political association, with different levels and degrees of affiliation for different components seem even more likely; and a total disintegration of the old union, inevitably very messy, cannot be excluded either.

At present, those republican leaderships interested in exploring political and economic association are giving first priority to trying to work out some form of economic treaty or union to be put into place quickly to arrest galloping economic chaos and to help shape eventual agreement on political association. (Some would say *in lieu of* such a political agreement). Several market-oriented alternative structures have been proposed that envisage varying degrees and levels of economic integration, and therefore carry different implications for potential economic assistance programs. At heart, however, the unresolved issues of new economic institutions remain political: How much sovereignty will be yielded up to the successor of the despised "colonial" center by newly minted "independent" states that are struggling to define for themselves separate political identities? How is an acceptable balance of interests to be worked out in an economic union so lopsidedly dominated in size, population, and resources by a single republic and that includes a large number of units with equal voting rights that are at a much lower stage of economic development and with different needs and potentialities?

Until there is more clarity on these most fundamental issues, there will simply not be appropriate interlocutors with whom we and other providers of aid can work out a long-range program of substantial assistance in support of comprehensive economic

reform. Perhaps, in the end, Russia alone will step forward and propose its own program independently. Much will depend on the kind of political and economic association that the "union" and Russia can work out with Ukraine. If Ukraine opts for a complete break, Russia's incentives to compromise its own preferences in order to maintain ties with the others will be significantly reduced. In that case, we would be faced with the challenge of defining for ourselves what would have to be a highly differentiated set of policies to govern our relationships with as many as 15 Soviet successor states, some of which would be central and some quite peripheral to our security and foreign policy interests.

What outcome would best serve U.S. interests? That is a question that has not received nearly the attention it deserves. Perhaps we can return to it in the discussion later. But for these introductory purposes, let us just say that any political and economic arrangement that the republics peacefully and voluntarily arrive at should be acceptable to us, provided that it respects international obligations toward the West entered into by the USSR.

Does that mean that for the time being we should simply stand on the sidelines and wait for the dust to settle before making decisions on economic assistance? Our own best interests do not permit us that luxury. The accelerating economic collapse of the Soviet Union poses a real threat that the process of economic disintegration will overtake the political sorting-out process, not only ruining chances for an orderly completion of the transition, but also cutting short the political lives of the young democratic forces that have blossomed in Russia and elsewhere.

In response to this imminent threat, a fairly broad consensus seems already to have developed around the proposition that the Western world must be prepared in the short term, meaning this winter, to provide what is labeled "humanitarian assistance," but could more aptly perhaps be regarded as "political stabilization assistance," chiefly in the form of food and medicine, almost certainly on a much more substantial scale than heretofore; that this assistance, to the extent feasible, should be precisely targeted and distributed locally with the participation of government and private volunteer organizations from the sending countries; and, again, to the extent feasible, under arrangements designed to minimize the counter-productive effects of large imports of food on the marketization process that is already under way, largely spontaneously, in many places.

Secondly, there needs to be a very substantial acceleration and expansion of what at this time is still a very small U.S. technical assistance program. This program should have as one of its major purposes a large-scale exchange of people: American specialists and experts of various kinds—I don't mean more academic economists, but people with the practical business and technical skills that are most pertinent on the ground at the

microeconomic level in the republics—and of students and practitioners from the various republics to the United States. Our government is not organized or equipped to conduct or manage such a technical assistance program for the former Soviet republics on any substantial scale, and we need urgently to create appropriate mechanisms. We should also explore Peace Corps operations in the various Soviet republics, an idea rejected not too long ago by the Soviet side because it smacked of “third world” status for the USSR, but now likely to elicit a much more positive response.

Finally, on the macroeconomic level, we have to be honest with ourselves and candid with our friends in the Former Soviet Union: We have not yet seen from them a coordinated program of comprehensive economic reform to which we could respond definitively. Nor has any separate republic developed such a program. Moreover, it is unlikely that such programs will emerge until some of the most fundamental issues of political association and national self-identity are resolved, or at least until some reasonably credible mechanism for managing them provisionally is created.

The changed political landscape, however, does require us to display a willingness to be more forthcoming than we—the United States at least—were prepared to be last July. In July we said we could not respond until the Soviet government not just formulated but actually began to implement a comprehensive program of reform that met Western standards. Given the resistance to marketizing reform evident then in top Soviet government echelons, and Gorbachev’s own frequently expressed reservations, these stringent qualifications were, in my view, entirely justified. In the altered circumstances, however, we should now be more willing to lean forward. We should, it seems to me, now be prepared to commit to cooperation in and to contribute to a program of assistance, including direct financial aid, to be worked out in detail by the Soviet parties and the relevant international economic organizations, once a credible program of reform is offered up by the Soviet side. Secretary Baker’s recent statement in Moscow indicates the U.S. Administration may be moving in that direction. Assurance that the United States and the other major industrial democracies are prepared to make such a commitment would be a strongly positive political signal that might encourage the republics involved in negotiations to make some of the difficult compromises that will be required to gain agreement while satisfying what are by now fairly well-known Western reform criteria.